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SH COLUMBIA SECURITIES COMMISSION



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OUR GOAL

>>> THE BRITISH COLUMBIA SECURITIES COMMISSION DEALS TO THE INDUSTRY OF FINANCIAL SERVICES, PROVIDING A STRONG, SOUND AND SOUNDLY REGULATED FINANCIAL SYSTEM IN BRITISH COLUMBIA. THE PURPOSE OF SECURITIES REGULATION IS TO PROTECT INVESTORS, MAINTAIN AND ENHANCE THE INTEGRITY OF THE FINANCIAL SYSTEM, AND TO PROVIDE A COMPETITIVE MARKET THAT PROVIDES ACCESS TO CAPITAL AND INVOLVEMENT WITH INVESTING. WE DO THIS BY:

- ENSURING INVESTORS HAVE ACCESS TO THE INFORMATION THEY NEED TO MAKE SOUND INVESTMENT DECISIONS
- SETTING UNQUALIFIEDLY HIGH POLICY FOR PEOPLE WHO ADVISE INVESTORS AND TRADE FOR THEM
- LAYING RULES TO CONDUCT THE MARKET FAIRLY AND HONESTLY
- ENSURING COMPLIANCE WITH THE RULES AND STANDARDS OF THE MARKET

THE COMMISSION IS SUGGESTED BY MARKET PARTICIPANTS, NOT THE PARLIAMENT. THE COMMISSION REPORTS TO THE MINISTER OF FINANCE AND ECONOMIC RELATIONS ITS ANNUAL REPORT AND ANNUAL FINANCIAL STATEMENTS.

> > > IT IS A COMMON THEME IN DISCUSSIONS AMONG AND ABOUT FINANCIAL SERVICES REGULATORS THAT THE MARKETS ARE CHANGING AT AN ACCELERATING RATE. FINANCIAL SERVICES AND PRODUCTS ARE CHANGING AND MULTIPLYING. TRADITIONAL EXCHANGES ARE EVOLVING, MERGING AND REALIGNING THEIR BUSINESSES AS THEY FACE NEW COMPETITION FROM ALTERNATIVE TRADING SYSTEMS.

Investors are relying more and more on market investments for their retirement savings. The information revolution allows companies to raise more money faster than ever before and investors, for better or worse, to access directly an ever wider range of opportunities.

These changes pose an enormous challenge for the BCSC and our fellow regulators. The *Securities Act* was designed in a simpler era and its relevance is being challenged daily. Our purpose remains unchanged – to ensure a fair and efficient market and to foster a competitive industry – but we have to find new and better ways to achieve it. That means working more closely with other regulators, both in Canada and abroad. It also means changing the way the BCSC does its job.

Over the past two years we have taken some major steps to change the culture of the BCSC. We are more focused on setting objectives and achieving timely results that address the challenges of the market.

We are also working more closely than ever with our partners in the Canadian Securities Administrators (CSA). We have developed the Canadian Securities Regulatory System, which is moving us toward harmonized rules and policies across the country and one-stop shopping for those who issue, sell and buy securities. A key streamlining initiative is our system of mutual reliance, under which one commission, as lead regulator, reviews each disclosure document or application, while the other commissions rely on that review rather than conducting their own. We are also building two more national electronic systems,

following the success of our SEDAR system for corporate disclosure. The new systems will simplify and accelerate the filing of insider trading reports and registration applications and make much of this information more accessible to the public.

Investors are increasingly seeing a convergence in the financial services sector, as some products of banks, insurers and pension plans take on the characteristics of securities. We are working with regulators of the insurance and pension industries, through the Joint Forum of Financial Market Regulators, to remove the gaps and overlaps caused by the integration of the four pillars of the financial system. The recent announcement that financial services regulation in Ontario will be consolidated into a single agency will likely cause the Joint Forum to take on an even larger role.

We are taking some important steps to refocus regulation on areas of market activity. For example, we have traditionally concentrated our disclosure review on the prospectus that an issuer must provide when it offers securities to the public. However, the vast majority of investment involves trading in previously issued securities on stock exchanges and over-the-counter markets.

As we move toward implementing the proposed Integrated Disclosure System, we are focusing more attention on the disclosure issuers provide on a continuous basis to investors in the secondary markets. We believe that by requiring issuers to provide better and more timely information, we can help investors make better decisions.



We are also working with the CSA to create a regulatory framework within which traditional exchanges and new alternative trading systems can operate together. The proposed national rules, and the consolidation plan for information on orders and trades, are intended to ensure trading is fair and efficient despite occurring in several markets at once. The proposal was published for public comment in July 1999 and should be finalized this year.

In March 1999, the Canadian exchanges announced a major restructuring, which included the merger of the Vancouver and Alberta stock exchanges to create a national venture capital market. The restructuring is intended to strengthen the Canadian exchanges by establishing focused expertise and liquidity for senior equities, junior equities and derivatives. A mere eight months after the announcement, the merger was done and the Canadian Venture Exchange (CDNX) was born. While the two exchanges were planning and completing the very complex merger transaction, we worked with the Alberta Securities Commission (ASC) to conduct a regulatory review. That led to the recognition of CDNX on November 26, 1999, authorizing it to operate as an exchange in both BC and Alberta. We also developed a joint regulation approach with the ASC for the continuing supervision of CDNX.

We are also going through a major restructuring of our system of self regulatory organizations, which provide the front line regulation of dealer conduct and capital adequacy. At the end of 1999, the

CDNX transferred to the Investment Dealers Association of Canada (IDA) the member regulation function it had inherited from the Vancouver Stock Exchange (VSE) and the Alberta Stock Exchange (ASE). The IDA is now responsible for registering and regulating all of the full service and discount dealers and their salespersons in BC. At the same time, the Mutual Fund Dealers Association (MFDA) has been developing its rules and structure in preparation for recognition later this year as the new self regulatory organization for mutual fund dealers and their salespersons. When this process is complete, the vast majority of dealers and salespersons will be in the self regulatory system. As senior regulators, our role will shift from direct regulation to monitoring and reviewing the activities of the self regulatory organizations.

Finally, we are devoting far more attention than in the past to educating and informing market participants, using the traditional tools of printed material and public meetings as well as the power of the internet. We are reaching out to the securities industry, public companies and their professional advisers to help them understand existing and proposed rules and to solicit their input on how to make regulation work better. And we are trying to help investors understand how to inform themselves about the risks of an investment *before* they put down their hard-earned money.

The year 1999-2000 was an extremely active and productive one for the BCSC. If anything, the next few years will be even more demanding. Through all of the change and challenge, we will remain committed to improving investor protection while increasing the efficiency of regulation.



DOUGLAS M. HYNDMAN

GLOBALIZATION AND TECHNOLOGICAL CHANGE ARE TRANSFORMING MARKETS BEFORE OUR EYES AND CHALLENGE US CONSTANTLY TO RETHINK OUR APPROACH TO SECURITIES REGULATION.

> > > BACK ROW

JOHN GRAF, *Commissioner* • ROY WARES, *Commissioner*
BRENT AITKEN, *Commissioner*

> > > FRONT ROW

DOUG HYNDMAN, *Chair* • JOYCE MAYKUT, *Vice Chair*
DIANE WOLCH, *Commissioner* • JOAN BROCKMAN, *Commissioner*

> > > ABSENT

ADRIENNE SALVAIL-LOPEZ, *Commissioner*



> > > THE COMMISSIONERS ARE APPOINTED BY THE PROVINCIAL GOVERNMENT
AND ARE RESPONSIBLE FOR ADMINISTERING SECURITIES LAW.

Commissioners have three basic functions:

- to serve as the board of directors of the BCSC and oversee its management;
- to provide policy direction to the securities industry and BCSC staff and to enact legally binding rules; and
- to conduct hearings and make decisions under the *Securities Act*.

During the year, the Commissioners rendered a total of 37 decisions, up from 23 in the previous year. The subjects of these decisions are:

- 12 cases brought by Enforcement staff to the Commissioners;
- 8 reviews of decisions made by the VSE;
- 3 takeover bid applications;
- 8 applications to revoke or vary outstanding orders; and
- 6 requests for adjournments, extensions of temporary orders or stays of decisions.

Doug Hyndman, Chair

- B.A. (Economics), University of British Columbia
- MBA, University of Western Ontario
- Economist, BC Ministry of Finance
- Assistant Deputy Minister, Treasury Board, BC Ministry of Finance
- Appointed Chair of the BCSC, 1987

Joyce Maykut, Q.C., Vice Chair

- LL.B., University of Alberta
- Called to the BC bar
- Prosecutor, federal Department of Justice
- Managed own practice
- Senior Solicitor, Vancouver Legal Services Branch, Ministry of the Attorney General
- Appointed Vice Chair of the BCSC, 1990

Brent Aitken, Commissioner

- LL.B., University of Alberta
- Practised corporate and securities law, Bennett Jones, Calgary
- Seconded as counsel, Alberta Securities Commission
- Taught securities regulation and corporate finance, University of Alberta and University of Calgary law schools
- Senior Vice President, Canadian Airlines International Ltd.
- Appointed Commissioner, 1995
- Member and Past Chair of the BCSC's Audit Committee
- Chair of the BCSC's Human Resources Committee

Joan Brockman, Commissioner

- B.A. (Sociology), University of Saskatchewan
- M.A. (Sociology), University of Alberta
- LL.B., University of Calgary
- LL.M., University of British Columbia
- Called to the Alberta bar
- Called to the BC bar
- Currently professor at the School of Criminology, Simon Fraser University
- Coordinator of the University Board on Student Discipline
- Co-author with V. Gordon Rose of *Canadian Criminal Procedure and Evidence for the Social Sciences*
- Published articles in law journals and other publications including the regulation of professionals and gender bias
- Appointed Commissioner, 1998
- Member of the BCSC's Human Resources Committee

John Graf, Commissioner

- B.Comm., University of British Columbia
- Chartered Accountant
- Specialized in taxation with Arthur Andersen Et Co.
- Manager of Taxation, Fletcher Challenge Canada Ltd.
- Treasurer, Fletcher Challenge
- Vice President, Secretary and Treasurer, Fletcher Challenge
- Appointed Commissioner, 1998
- Chair of the BCSC's Audit Committee

Adrienne Salvail-Lopez, Commissioner

- LL.B., University of British Columbia
- Called to the BC bar
- Senior Policy Adviser, Ministry of Finance and Corporate Relations
- Director of Policy and Legislation, BCSC
- Appointed full-time Commissioner, 1992
- Member of the BCSC's Audit Committee

Roy Wares, Commissioner

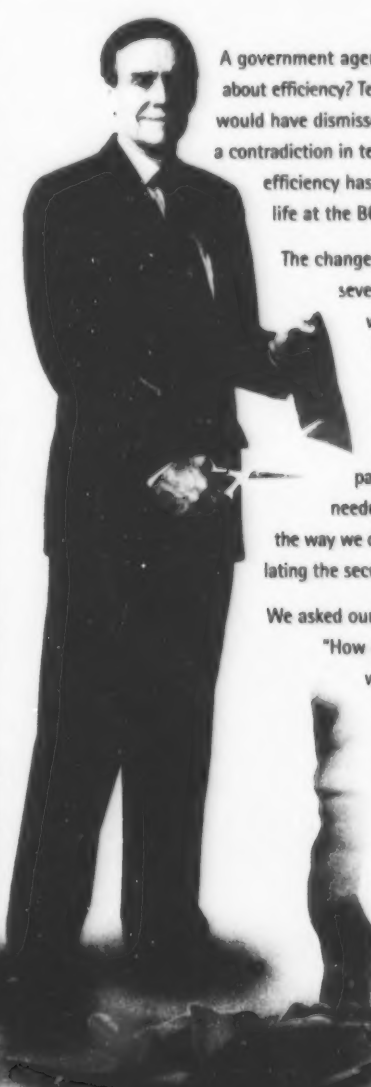
- B.Sc. (Hons) Geology, University of Aberdeen
- M.Sc. (Geology), Queen's University
- M.Sc. (Regional Resources Planning), University of Aberdeen
- Registered professional engineer, BC
- Registered professional geologist, Newfoundland
- Appointed Commissioner, 1998
- Member of the BCSC's Audit Committee

Diane Wolch, Commissioner

- B. Comm., McGill University
- Economic Analyst, Manitoba Department of Industry and Commerce
- Broker, Burns Fry Ltd.
- Financial Consultant, The Exchange Consulting Group
- Commissioner, Manitoba Securities Commission
- Appointed Commissioner, 1995
- Member of the BCSC's Human Resources Committee

> > > EFFICIENCY IS DOING THINGS RIGHT. EFFECTIVENESS IS DOING THE RIGHT THING.

Zig Ziglar, author and motivational speaker



A government agency concerned about efficiency? Ten years ago, many would have dismissed that concept as a contradiction in terms. Today, efficiency has become a focus of life at the BCSC.

The change in thinking started several years ago, after we shifted from being a direct arm of government to an agency funded by market participants. We realized we needed to re-examine the way we did our job of regulating the securities market in BC.

We asked ourselves, "How do we measure whether we are doing our job efficiently?" We realized one possible yardstick could be crafted by asking the people we serve what they expect from us.

We've started by identifying our "customers" or stakeholders. It's a long list. It includes investment dealers and their salespeople; investors, from the nervous novice to the seasoned pro; companies that issue securities, their directors and officers; lawyers, accountants and other professionals who serve market participants; Canada's stock exchanges; the provincial government; and other securities regulators in Canada and abroad.

The next step was to find out what they considered to be "good customer service." We borrowed some techniques from business. We've held focus groups where our stakeholders have told independent moderators where we've succeeded—and failed—to serve them well. Finally, we will be asking them just how we rate.

We're using this information to do our job better. That means a number of things. It means using our stakeholders' expectations to set service standards. Those standards become the benchmark for measuring not only *what* we do but *how well* we do it. These standards can also translate into performance measures for the BCSC and our staff. Another tool being used to improve efficiency with the BCSC is planning. Each year, the BCSC's three-year Strategic Plan is updated, and a new annual Operating Plan is formulated. Progress towards our strategic goals is closely monitored, and included as a performance measure in the Incentive Compensation Plan for our staff. The BCSC 2000–2001 Strategic Plan is available to the public on our website www.bcsc.bc.ca.

The challenge for us in using business techniques to do a better job is that we are not just a business. We are the senior regulator of securities markets in BC. We can't simply say the "customer is king" and leave it at that. We must maintain a delicate equilibrium, taking into account the interests of all market participants. This means protecting the investor's right to full, timely and accurate information while not impeding companies' efforts to raise money quickly and economically. It means making it tough for con artists to prey on investors but not setting so many rules that we drive good companies away to less regulated markets.

As regulators, we also have expectations about how the industry should conduct itself. We believe senior management must be responsible and accountable for the conduct of the people they manage.

We intend to stress compliance by increasing our market scrutiny, examinations and enforcement efforts.

We believe that compliance should be a state of mind at all levels within the securities business, not just a cost of doing business. And that state of mind should influence every business decision a manager makes.

In the final analysis, if we succeed in doing our job efficiently and effectively, the public will have confidence in the integrity of our markets, making winners of us all.

A handwritten signature in black ink, appearing to read "Steve Wilson". The signature is fluid and cursive, with a large initial "S" and "W".

STEVE WILSON

THERE ARE TWO WORDS
THAT DESCRIBE OUR GOALS—TIMING AND SPEED. WE NEED TO
KEEP PACE WITH SECURITIES INDUSTRY DEVELOPMENTS IN
ORDER TO ACT QUICKLY AGAINST ABUSES IN THE
MARKETPLACE. WE NEED TO KNOW WHERE TO GO AND WHAT
TO DO—QUICKLY—TO GET THE EVIDENCE WE NEED TO TAKE
ACTION AGAINST THOSE WHO VIOLATE THE RULES
AND REGULATIONS.

SASHA ANGUS, *director*



> > > OUR JOB IS TO PROTECT INVESTORS BY INVESTIGATING ABUSE AND MISCONDUCT IN CAPITAL MARKETS AND TO TAKE ACTION AGAINST WRONGDOERS. OUR DIVISION IS MADE UP OF THE CASE ASSESSMENT TEAM, THE INVESTIGATION BRANCH AND THE LITIGATION BRANCH.

The Case Assessment Team initiates files by way of complaint or referral and decides if each matter should be referred to another agency, sent to the Investigation Branch or referred elsewhere in the BCSC for further action.

After investigating an alleged violation of the Act, the Investigation Branch decides on further action. The branch can negotiate a settlement with the wrongdoer for approval by the Executive Director, recommend that the allegations be taken to the Commissioners for a hearing or refer the matter to the criminal justice authorities for prosecution.

When the Commissioners hear allegations of *Securities Act* violations, it is the Litigation Branch that presents the case on behalf of the BCSC. The branch also acts as the BCSC's legal counsel in the courts.

Investigation Highlights

This past year we received a total of 2,748 new complaints and inquiries, a decrease of about 13 per cent from 1998-1999. Of the total, 845 complaints were in writing. Half of those came from members of the investing public and the remainder were formal referrals from BCSC staff, other regulatory agencies including the CDNX and the IDA and the securities industry. The most frequent complaints concerned unregistered advising and trading, unregistered distribution and fraud or theft.

Sixteen notices of hearing were issued in enforcement matters during the year. The Commissioners issued decisions on 13 enforcement proceedings involving 38 respondents.

We settled 48 other matters involving negotiated settlements with 52 respondents. Penalties from those settlements totalled \$1,022,000.

Cross Border Enforcement

As securities markets continue to expand on a global scale, Canada's securities regulators will increasingly co-operate with regulators in other countries to combat fraud and wrongdoing in the marketplace.

A highlight of the past year was the successful resolution of two cases involving foreign regulators.

In a matter involving Vancouver securities lawyer Michael Lee Seifert, we worked with regulators in the English Channel Island of Jersey to gather evidence supporting BCSC allegations. Seifert eventually signed a settlement with the BCSC's Executive Director, in which he admitted to several violations of the *Securities Act*, including failing to file insider reports disclosing his control over certain companies.

In the Global Securities case, the Supreme Court of Canada confirmed that the provision in the securities legislation giving the BCSC the power to assist in the investigation of possible violations of foreign securities laws is aimed at furthering the effective enforcement of domestic securities laws and as such is valid legislation.

The practical effect of this important decision is that securities regulators in Canada can work together, and with regulators in the United States and elsewhere to gather information about people contravening securities laws, regardless of where the conduct occurs and whose securities laws have been contravened.

Investor Education

We assisted the Communications and Education Department by providing those attending investor education seminars with examples of fraud and misconduct and tips for investigating investment opportunities. We also conducted media interviews on several key cases.

> > > ONE OF THE ROLES OF THE BCSC IS TO ENFORCE THE *SECURITIES ACT* LEGISLATION. FOLLOWING A PUBLIC HEARING AND AFTER CONSIDERING THE PUBLIC INTEREST, THE BCSC MAY ISSUE ORDERS BANNING A PERSON FROM SECURITIES MARKETS, IMPOSING FINANCIAL PENALTIES AND ASSESSING INVESTIGATION AND HEARING COSTS. THE BCSC ISSUED 12 DECISIONS ON ENFORCEMENT MATTERS IN 1999-2000. THESE DECISIONS CAN BE VIEWED AT WWW.BCSC.BC.CA. THE MOST SIGNIFICANT DECISIONS ARE DESCRIBED BELOW.

Eron Mortgage Corporation, Eron Investment Corporation, Eron Financial Services Ltd., Capital Productions Inc., Brian Slobogian and Frank Biller

The BCSC banned two Eron Mortgage executives and four Eron companies from securities markets and imposed penalties totalling \$1.8 million after finding they perpetrated a "massive fraud" on BC residents.

Eron president Brian Slobogian is denied access to securities markets for the rest of his life, including acting as a director or officer of any issuer, or engaging in investor relations activities. Slobogian must also pay \$300,000 in administrative penalties.

Frank Biller, Eron vice-president, is denied access to securities markets for 10 years, including acting as director or officer of any issuer or engaging in any investor relations activities. Biller must also pay \$300,000 in administrative penalties.

The BCSC ordered the four Eron companies be permanently cease-traded and denied access to securities markets in BC and pay \$300,000 each in administrative penalties.

The maximum administrative penalty permitted for each contravention of the *BC Securities Act* is \$100,000. This maximum amount was levied against each for three contraventions of the Act: failing to be registered and to file a prospectus, making misrepresentations, and perpetrating fraud.

The two men and the four companies were also ordered to pay the costs of the 31-day hearing.

Biller has appealed the administrative penalty ordered against him. The appeal has not yet been heard.

Between January 1993 and October 1997, Eron raised over \$240 million from investors by brokering syndicated mortgages and issuing promissory notes. In a syndicated mortgage, a broker, such as Eron, raises funds for a single mortgage from a large number of investors. Each investor receives an interest in the mortgage.

Eron reached potential investors through an effective marketing program that included free seminars, television and print ads, bulk mailings and the distribution of promotional material.

Investors in Eron mortgages were to receive a registered interest in the mortgage, but sometimes Eron moved their investment to another mortgage without their knowledge or consent. Eron's mortgage investors received a promise to pay from the borrower who granted the mortgage, not Eron, although in some cases Eron, Slobogian and Biller guaranteed repayment from the borrower. Investors in the promissory notes received only an unsecured promise to pay from Eron.

Eron's business was financing real estate development projects in Canada and the United States. Eron abandoned all the normal rules of lending and did not follow accepted practice in managing its projects.

Many of Eron's loans were not paying interest and principal. Eron raised funds from new investors to pay the interest and principal owed to existing investors, without telling the investors what it was doing. Eron also did not spend investors' money in the manner they were told it would be.

Investor losses are expected to exceed \$170 million among the more than 3,000 Eron investors, many of whose retirement funds have been lost. Others borrowed against their homes to invest and now face mortgage payments that they cannot meet.

Gary Stanhiser, Del Knowlton and Linda Knowlton

Gary Stanhiser was banned from the BC securities market for the rest of his life, fined a \$100,000 administrative penalty and required to pay most of the costs of the BCSC hearing into an investment fraud he perpetrated.

Stanhiser, a former pastor with the Seventh Day Adventist Church, masterminded an offshore investment scam in which 300 investors lost at least \$11 million. Many of the investors were church members in BC and California.

Del and Linda Knowlton helped Stanhiser operate Excel Asset Management Inc. and a number of other associated companies created to bilk investors. Del Knowlton was banned from the BC securities market for 10 years, given a \$20,000 administrative penalty and ordered to pay some of the hearing costs. His wife Linda was given a five year trading ban, a \$5,000 administrative penalty and ordered to pay some hearing costs.

Stanhiser set up Excel Asset and a group of offshore companies and trusts that were ultimately controlled by him. Client representatives of Excel Asset, including the Knowltons, raised money from clients between 1995-1997. The money was then pooled into accounts at Cannaccord Capital Corp. in the name Stanhiser, Del Knowlton or one of a number of Excel companies. The BCSC found that Stanhiser perpetrated a fraud and together with the Knowltons traded in securities without registration and without a prospectus.

EVC Resources Ltd., Kenneth Arthur Erickson and Maurice John Calf

Kenneth Arthur Erickson was banned from the securities markets for the rest of his life, fined \$100,000 and ordered to pay 80 per cent of the costs relating to his hearing. Maurice John Calf was banned from the securities markets for 15 years and ordered to pay 20 per cent of the hearing costs.

Promising investors returns of up to 150 per cent in 1996 and 1997, the two men sold shares in EVC Resources Inc., which claimed to have a proprietary method of extracting gold from mine tailings and complex ores. They sold the shares without being registered to do so and without providing investors with a prospectus or offering memorandum.

They also promised investors that the company would be listed on the former VSE.

Investors were also offered, but never received, gold bullion that was to come from the following sources: from gold processed at a plant using the EVC method and "old gold" bullion purportedly plundered from countries occupied by Japanese soldiers during the Second World War and gold held by the former Philippine president Ferdinand Marcos who had supposedly deposited it in a New York bank.

BC investors lost \$1.2 million. Of that, \$800,000 represented investments made by Calf, his family and associates.

Russell James Bennett, William Richards Bennett and Harbanse Singh Doman

The BCSC imposed trading sanctions against Russell James Bennett and Harbanse Singh Doman and ordered them along with William Richards Bennett to pay the commission \$1 million to cover the costs of an insider trading case that spanned 11 years.

The orders were issued by consent. Doman was ordered to resign as president and chairman of Doman Industries for eight months. After that period, he may not hold the positions of chief executive officer and chairman at the same time until October 25, 2009, and his appointment to either position must be recommended to the board of directors of Doman by an independent corporate governance committee of the board.

Doman is also prohibited from acting as a director or officer of any other reporting issuer and from trading securities for a 10-year period ending October 25, 2009.

Under the order, Doman may participate and exercise options to purchase shares under Doman Industries' incentive stock option plan. He may also engage in investor relations activities necessary to discharging his functions as an officer or director of Doman Industries and its subsidiaries and trade in Doman Industries securities that change control of the company. However, before he does the preceding, he must first give the BCSC's Executive Director seven days' notice.

Russell Bennett is prohibited from acting as a director or officer of any reporting issuer and from trading in securities until August 31, 2006. The sanctions against him are the same as those ordered by the BCSC against William Bennett on August 28, 1996.

At the 1996 hearing, the BCSC found that the Bennetts sold 517,000 shares of Doman Industries on November 4, 1988 at an average price of \$11.37 using insider information provided to them by Doman. Minutes after the Bennetts sold their shares, trading in the Doman shares was halted while Doman announced that a proposed takeover by US lumber company Louisiana Pacific had been cancelled. Following that news, shares of Doman Industries, which were trading on the Vancouver and Toronto stock exchanges, dropped to a price of about \$7 each.

Doman called Russell Bennett just before the Bennetts sold their shares. The BCSC found that Doman contravened the *Securities Act* by giving the Bennetts information that had not been generally disclosed to the public and that the Bennetts contravened the *Act* when they acted on that information.

The consent order was made following an appeal by Russell Bennett and Doman of the BCSC 1996 decision, on the basis that they were not given sufficient opportunity to be heard on the issue of penalties before the BCSC issued its orders.

Noram Capital Management Inc.

The BCSC cancelled the registration of portfolio manager Noram Capital Management Inc. on March 8, 2000 after finding Noram failed to meet working capital requirements, filed misleading financial statements and misled BCSC staff. Noram was also fined \$25,000.

A hearing is pending to consider related allegations against Noram president Andrew Willman and director Suzan Khan. The BCSC made no order as to costs, pending its decision in that matter.

John Terrance Pyper

The BCSC has banned John Pyper from trading securities for five years and ordered the former equity analyst to pay \$27,000 in penalties and costs associated with the hearing into his conduct.

The BCSC found Pyper contravened the *Securities Act* in April and May 1997 by engaging in the practice of frontrunning.

On four occasions in 1997, while employed by a Vancouver based portfolio manager, Pyper personally sold short shares of thinly traded companies and, before covering his short position, followed up with sales of blocks of shares of the same companies that were owned by his employer's clients.

The sales of the clients' investments were conducted in a manner intended to depress the price of the shares, enabling Pyper to later cover his short position at a profit, which he did in each instance. In each of the four cases, the price of the shares declined after he made his personal short sale, allowing him to cover his short sales at a profit that totalled approximately \$13,000 before commissions.

> > > ANY PERSON AFFECTED BY A DECISION MADE BY A RECOGNIZED EXCHANGE OR SELF REGULATORY ORGANIZATION HAS THE RIGHT TO APPEAL THAT DECISION IN A HEARING AND REVIEW BEFORE THE BCSC. THE BCSC'S EXECUTIVE DIRECTOR ALSO HAS THE RIGHT TO REQUEST A REVIEW OF THESE DECISIONS.

The BCSC issued eight decisions on reviews of VSE decisions in 1999-2000. The full text of all these decisions can be viewed at www.bsc.bc.ca. The most significant decisions are described below.

Jean-Claude Hauchecorne

The BCSC dismissed Jean-Claude Hauchecorne's application to set aside or vary the findings and penalties issued by a VSE hearing panel that he claimed was biased.

The exchange hearing panel had found Hauchecorne, a former Pacific International Securities branch manager, liable for 21 infractions against the exchange's by-laws and rules. The infractions related to Hauchecorne's handling of eight offshore accounts and his dealings with several individuals connected with organized crime in the United States.

At the same time, the BCSC granted an application by its Executive Director to vary the exchange hearing panel's decision. The BCSC found Hauchecorne liable for four additional infractions, which the hearing panel had dismissed, relating to Hauchecorne's failure to learn the identities of the beneficial owners of the accounts.

The BCSC confirmed the penalty imposed by the hearing panel: a \$200,000 fine, disgorgement of \$95,000 in commissions, permanent withdrawal of exchange approval, and costs of the hearing.

Hauchecorne had cited three grounds of appeal for his argument that the BCSC should set aside the hearing panel's decision and order a new hearing.

These were:

- comments made by the hearing panel chair in the hearing, as well as certain subsequent events, gave rise to a reasonable apprehension that the panel chair was biased against him;
- the hearing panel improperly admitted into evidence a transcript of oral evidence given in a court proceeding; and
- the reasons given by the hearing panel for its decision were inadequate.

In the alternative, Hauchecorne argued that the penalty ordered by the hearing panel was excessive and unwarranted. He submitted that the BCSC should reduce the penalty.

In reversing the hearing panel's dismissal of four infractions, the BCSC emphasized the importance of a broker's learning the identity of a client and looking "behind any corporate veil to determine who has a financial interest in the account."

BCSC staff later initiated a separate BCSC proceeding against Hauchecorne for the same conduct, asking for orders under the *Securities Act* against him. A group of brokerage firms sought and obtained standing at the BCSC hearing to voice their opinion that they should not be required to determine beneficial ownership of offshore accounts. The matter is scheduled to be heard in summer 2000.

Norman Baldwin

Baldwin applied to the BCSC for a hearing and review of a VSE decision requiring him to terminate his business relationship with any company listed on the exchange and requiring any exchange-listed company to inform the exchange if it was considering working with Baldwin.

The exchange had found that Baldwin had played a leading role in the decision to issue 1.2 million shares of Banner Mining Company without proper consideration. The exchange also inferred that Baldwin knew or ought to have known of Robert Slavik and Geoffrey Armstrong's plans to use the shares to promote the stock.

The BCSC found no evidence to support the exchange's conclusions and found that the exchange erred in law in making its decision based on these conclusions. The BCSC varied the exchange decision that had found Baldwin unacceptable to be involved in exchange-listed companies, and required Baldwin to complete a course on the duties and responsibilities for directors and officers.

>>> NOT ALL ENFORCEMENT MATTERS LEAD TO A HEARING. IN SOME CASES, PERSONS WHO HAVE CONTRAVENED THE SECURITIES LEGISLATION ENTER INTO SETTLEMENTS WITH THE BCSC STAFF. FORTY-EIGHT SETTLEMENTS WERE ENTERED INTO IN THE YEAR ENDING MARCH 31, 2000. THE MOST SIGNIFICANT SETTLEMENTS ARE DESCRIBED BELOW.

Fortune Financial Corporation

On January 18, 2000, Fortune Financial Corporation entered into a settlement agreement with the Executive Director and agreed to pay a \$125,000 fine to the BCSC.

Fortune, a registrant in BC, sold units of Infinity Income Trust, an unincorporated trust established in Ontario, raising more than \$1 million from investors.

In these sales, Fortune acted as an underwriter—a dealer that purchases securities from a company to resell to the public—but was not registered to do so. The contraventions were discovered during a routine examination of Fortune's business in May 1997 by BCSC staff. Staff also found that Fortune failed to meet other requirements under the securities legislation, including maintaining a complete and accurate record of business transactions and financial affairs at its chief place of business in BC and complying with the "know your client" rule.

Fortune's business was later acquired by another financial services firm.

Ralph A. Sivertson and Douglas W. Robinson

In settlement agreements dated January 25, 2000, Ralph A. Sivertson and Douglas W. Robinson, formerly directors and officers of the Waverly Group of companies, acknowledged that they acted contrary to the public interest, traded without being registered and illegally distributed securities. Sivertson, the former president of Waverly, consented to orders of the Executive Director that he cannot sell securities exempted from registration and disclosure requirements, nor can he be a director or officer or engage in investor relations

for 15 years. Robinson, the former vice-president, consented to similar orders for five years. Each of them also agreed to a \$15,000 penalty.

Michael Lee Seifert

On December 9, 1999, Michael Lee Seifert, a Vancouver securities lawyer, entered into a settlement agreement that barred him from the BC securities market for 12 years. He also agreed that he would not act as a filing solicitor for any filings made with the BCSC and the CDNX for 12 years. He agreed to pay the BCSC \$450,000, of which \$200,000 represented costs of the BCSC investigation.

Seifert was, at times, an insider of reporting companies in BC between June 12, 1992 and September 25, 1995. In that period, Seifert had direction or control over shares of those companies, through trusts he established in the Channel Island of Jersey. He conducted illegal insider trades of these securities and failed to file insider reports.

Michael Paul Olsen, 3538397 Canada Ltd. (doing business as Wealth Management Group) and Olsen Financial Consultants Inc.

On November 22, 1999, Michael Paul Olsen, Olsen Financial Consultants Inc. and the numbered company, 3538397 Canada Ltd. signed a settlement agreement with the Executive Director.

In the agreement, Olsen, sole director of 3538397 Canada Ltd. and Olsen Financial, agreed to orders barring him from the market for 10 years if, within 18 months, he makes an offer to investors to cancel their investment and get their money back. If he doesn't make that rescission offer, he is barred from

markets for 15 years. He also agreed to pay \$10,000. The numbered company and Olsen Financial Consultants Inc. agreed to be barred permanently from trading in securities in BC.

In April 1998, Olsen's registration as an employee of Vantage Securities Inc. was terminated when the BCSC cancelled the company's registration as a securities dealer. After Olsen's registration was cancelled, he directed distribution of a bond through Olsen Financial and raised about \$228,000. Olsen raised a further \$120,000 by selling shares in the numbered company.

Olsen acted as an adviser without being registered under securities legislation.

Cartaway Resources and First Marathon Securities

Settlements were reached with Eric Savics, David Lyall and Michael Stuart, three brokers employed by First Marathon Securities Limited (FMSL). The brokers acknowledged that they were in potential conflicts of interest by participating in the group that controlled Cartaway, a shell company on the ASE.

Lyall admitted a conflict occurred when he subsequently acted as broker in transactions where his clients purchased shares of Cartaway.

Stuart, a branch manager of FMSL in Calgary and a Cartaway director and officer acknowledged that as a director, he was responsible for Cartaway improperly distributing its shares. He also

acknowledged that he failed to:

- disclose to the ASE, his role as a director of Cartaway;
- obtain ASE approval for a share loan transaction; and
- meet the appropriate standard of review for news releases required of directors of mining companies.

Savics was fined \$15,000 and assessed investigative costs of \$10,000. He also gave an undertaking to fully comply with the Act and the *Rules* and abide by First Marathon's employee investment policy.

A BCSC decision regarding two other brokers in the Cartaway matter, Robert Hartvikson and Blayne Johnson, is pending.

COMMUNICATIONS AND EDUCATION >>>

WOULD YOU BUY A CAR WITHOUT VISITING A DEALERSHIP, TEST DRIVING IT OR KNOWING WHAT KIND OF WARRANTY COMES WITH THE CAR? LIKELY NOT. ON THE OTHER HAND, MANY PEOPLE BUY INVESTMENTS COSTING MORE THAN A CAR WITHOUT ASKING THE RIGHT QUESTIONS AND UNDERSTANDING THE RISKS. SOMETIMES THEY BUY INVESTMENTS FROM TOTAL STRANGERS WHO CLAIM IT IS A 'ONCE IN A LIFETIME OPPORTUNITY' OR A 'GUARANTEED INVESTMENT'. BUYING AN INVESTMENT IS A LOT LIKE BUYING A CAR — YOU NEED TO KICK THE TIRES!



MICHAEL BERNARD, WENDELL



> > > INVESTMENT BY THE PUBLIC IS INCREASING. SOME INVESTORS ARE RELYING MORE ON PROFESSIONAL MONEY MANAGERS WHILE OTHERS ARE TAKING TO TRADING ON THE INTERNET. WE CANNOT PROTECT INVESTORS BY WARNING THEM ABOUT ALL FRAUDULENT SCHEMES AND SCAM ARTISTS. INVESTORS MUST BE "STREET-PROOFED" AGAINST FRAUD THROUGH COMMUNICATION AND PUBLIC EDUCATION PROGRAMS.

Financial markets are becoming more complex and the rules are changing fast to keep pace. We recognize that it is difficult for industry to keep on top of everything in our rule book. As a result, we must help industry understand the rules and how to comply with them.

We, like other regulators throughout the world, have increasingly emphasized investor and industry education by dedicating greater financial and human resources to that effort.

Our goals are to ensure that:

- investors have the information they need to make good decisions and protect themselves;
- industry understands the rules;
- partnerships with fellow regulators broaden investor education; and
- BCSC staff are trained to assist in investor education initiatives.

Investor Education Week 2000

Canada's third annual Investor Education Week was part of an initiative held in more than 20 countries in North, South and Central America and the Caribbean. Special education campaigns informed youth and seniors about the value of investing and the importance of investigating *before* investing.

The CSA, the umbrella group of securities commissions from the 10 provinces and three territories, joined with the popular MuchMusic and Musique Plus cable channels to produce a series of video spots that spoke to Canada's teens. Called "What Are Your Dreams?", the campaign stressed the rewards of starting early on a saving and investment program. The campaign also encouraged teens to visit the cable broadcasters' websites to learn more about saving and investing.

To reach seniors, the CSA worked with the Canadian Association of Retired Persons (CARP) to produce articles for the association's one million readers of its *Fifty Plus* magazine. The articles addressed Canada's restructured stock exchanges, the new alternative trading systems, the internet resources available to investors and the growth of internet investing.

BCSC staff spoke to high school students about the benefits of investing early and the need to be cautious. BCSC staff also spoke to seniors about checking out an investment and the person selling it.

Investor Education Week 2000 received extensive media coverage in daily and community newspapers, on radio and television, reaching an estimated 500,000 British Columbians.

CSA Investor Education Strategic Plan

We assisted the CSA Investor Education Committee to draft a three-year plan providing the CSA with a well-researched roadmap of future initiatives. This plan includes creative and novel devices for educating specific groups of investors.

www.bcsc.bc.ca

Our website awareness campaign, launched in spring 2000, highlighted key improvements to the BCSC's website. Advertisements appeared in daily and community newspapers reaching an estimated 772,800 British Columbians. Postcards in the *Globe and Mail* (BC edition) reached another 41,000.

Financial Forum 2000

In February 2000, the BCSC participated for the fourth consecutive year at the annual Vancouver Financial Forum. This investment exhibition drew a record crowd of 34,500. BCSC volunteers distributed several thousand investor education brochures and other materials. BCSC Chair Doug Hyndman opened the Forum with a speech on "How to Protect Yourself and Your Investments". He focused on actual BCSC fraud cases and shared important investor self-protection lessons.

Investor Seminars

In fall 1999, we held eight public seminars across the province attended by 550 British Columbians. The seminars featured investor self-protection tips ranging from how to avoid unsuitable investments to identifying outright fraud.

Industry Education

In early 2000, we worked with the Policy and Legislation Division to launch two major information initiatives for issuers and their advisers. One was a series of four sessions to explain the proposed Integrated Disclosure System, which would streamline the process companies go through to raise capital while offering investors better and more timely information. The second was a session to explain and discuss proposed improved standards for scientific and technical information investors receive about mineral exploration properties. The positive industry response has prompted us to consider holding similar sessions in future.

Staff Ambassador Program

We have recently launched a program inviting employees to act as "ambassadors" for the BCSC by speaking at investor education events. Our goal is to increase public awareness of the BCSC's role by using staff's expertise. The program's benefits include tapping staff's knowledge and broadening the scope of the investor education program.

Customer Satisfaction

We are assisting the Executive Director in measuring and improving customer satisfaction through a series of surveys and focus groups. Measuring customer satisfaction includes taking a hard look at how employees fulfil customers' needs. The purpose is to help the BCSC become a more service-oriented organization that is able to balance the goals of protecting investors and respond to the needs of the industry.

POLICY AND LEGISLATION >>> THE RAPID
RATE OF CHANGE IN THE SECURITIES MARKET FORCES US TO
CONSTANTLY REVIEW OUR RULES AND POLICIES. WE MUST
ELIMINATE THOSE THAT ARE OBSOLETE, UPDATE THOSE THAT
ARE STILL NEEDED AND, WHERE NECESSARY, CREATE NEW
ONES TO PROTECT THE PUBLIC INTEREST.

↑
BRENDA BENHAM, *director*



> > > WE ADVISE THE BCSC ABOUT CHANGES TO SECURITIES REGULATION. WE RECOMMEND TO THE BCSC LOCAL AND NATIONAL PROPOSALS FOR REGULATION AND ADVISE ON LEGAL AND POLICY ISSUES.

Canadian Venture Exchange (CDNX)

In March 1999, Canada's four major stock exchanges announced a plan to restructure themselves into three specialized exchanges. The plan included the merger of the Vancouver and Alberta stock exchanges to create a national junior equity market. On November 29, 1999, the merged exchange, CDNX, opened for business in Vancouver and Calgary.

We assisted in facilitating this merger together with other BCSC divisions, including Corporate Finance and Compliance, and with our colleagues at other securities commissions. We developed several blanket exemption orders that made a smooth transition from the VSE to CDNX possible. One of these orders waives, until mid-2001, the need for companies previously listed only on the ASE and reporting only in Alberta, to pay fees to the BCSC and to file certain unique BC reports. The ASC has provided an equivalent waiver for former VSE companies.

Mutual Reliance Review System (MRRS)

Last January, we and other commissions across Canada provided companies with one-stop shopping for approval of their plans to issue securities in more than one province. MRRS reduces the time and expense companies face when applying for approval to sell securities or applying for relief from certain regulations. We all agreed that the principal commission, in whichever province or territory a company has its headquarters, would become the lead regulator in approving the application. In turn, we would rely primarily on the lead regulator's analysis when considering the same application in our own province.

National Escrow Regime

We have worked with other commissions to develop a single national scheme for regulating escrow shares that are held by key company executives and other principals. Previously, each province and each stock exchange had its own policy for restricting shares held by principals of companies after they go public. Shares held in escrow may not be bought or sold unless certain conditions are met or approval is obtained from a stock exchange or securities commission.

The proposed national scheme, which is being applied on a voluntary basis in place of the old BC policy, shortens the time period for restrictions on selling escrow shares and makes Canadian exchanges more competitive in attracting new listings.

A draft rule to implement the national scheme is expected to be published for comment by December 2000.

Mining Standards

We worked with fellow securities regulators on refining standards for scientific and technical information investors receive about mineral exploration.

First published in 1998, the proposed new rule was republished for public comment in March 2000. In BC, we held information sessions in Vancouver and Kamloops to actively seek feedback from mining companies and their advisers.

The rule is designed to improve the quality of information available about mining properties and exploration programs. Those improvements include:

- requiring use of standard mining terms;
- requiring scientific and technical information that investors receive to be based on work done by a qualified person; and
- requiring, in certain circumstances, the qualified person to be independent of the reporting company.

The new rule is expected to become effective by December 2000.

Integrated Disclosure System

Traditionally, securities regulators have focused on information investors receive when a company sells its shares to the public. However, after this initial sale, all trades are on the secondary market, either through stock exchanges or over the counter, where dealers make trades by telephone and computer. It is this secondary market that now accounts for the vast majority of trading by investors, who need complete and timely information when they trade. Because of this, regulators are increasingly concentrating on requiring companies to provide better ongoing information about their activities and financial status.

During the year, we worked with our counterparts at other commissions to develop a new system for providing this information. In January 2000, we published for public comment a concept paper on what we call the Integrated Disclosure System. It proposes that companies be required to file more information on a continuous basis. It would also simplify the process for companies applying to issue new securities.

In the spring of 2000, we adopted a proactive approach to seek comment from the securities industry, public companies and legal and accounting professionals. We held a series of four forums to explain the proposal. Draft rules are expected to be published for comment by mid-2001.

Mortgage Securities

We republished for comment a proposed rule to regulate the sale of mortgage securities. These securities have been exempt from *Securities Act* requirements but rules are needed for new forms of complex and potentially risky mortgage investments. After considering the comments we received and discussing them with staff of the Financial Institutions Commission (the mortgage broker regulator), we made changes to the rule and submitted it to the Finance Minister for approval.

The new rule, effective September 1, 2000, sets out how information should be provided to investors in complex mortgage securities. All but the most simple mortgage offerings will be subject to general *Securities Act* requirements.

Standards for Financial Planners

In the increasingly complex world of securities, investors must have confidence in the advisers who serve them. Canada's regulators believe there should be a rigorous yet easily understood standard for those registered with us who are participating in the fast-growing financial planning business. In the fall of 1999, we and other commissions published for comment a proposed rule to set up minimum educational standards for these planners. The rule is expected to be adopted by March 2001.

Mutual Fund Rules

Investor information about mutual funds was usually written in complex language that was difficult for investors to understand. We and our fellow regulators are trying to make mutual fund companies present investor information in simple, everyday words. A new rule, effective February 2000, sets out new requirements for providing this information, including a simplified form of prospectus.

Canada's securities commissions also updated requirements outlining how mutual fund companies administer their funds, including what they invest in and how the fund's performance is reported. Future amendments will also address issues involving special types of mutual funds including index funds and commodity pools. We will also work with our fellow regulators to propose guidelines for how mutual funds should be organized to best protect investors' interests.

Efficiencies

During the last few years, the securities business has become increasingly competitive at the international level, putting pressure on Canadian markets and their participants to become more efficient. We have responded to this change by working with our colleagues at other securities commissions to build a streamlined Canadian Securities Regulatory System.

We have made a start at streamlining regulations in BC by updating three policies and eliminating eight others. Some of these related to the merger of the Vancouver and Alberta stock exchanges into CDNX, others related to the increased co-operation among regulators in reviewing prospectuses.

The BCSC also eliminated 10 Blanket Orders and Rulings relating to the former *Commodity Contract Act*. Blanket orders and rulings are designed to provide relief to companies or individuals on an industry-wide rather than a case-by-case basis. They were replaced with a single order recognizing exchanges that trade in exchange contracts.

AS MARKETS EXPAND
INTERNATIONALLY, THE NEED IS APPARENT FOR A
WELL-MANAGED AND UNIFIED SYSTEM OF SECURITIES REGU-
LATION IN CANADA. WE INTEND TO REACH THAT GOAL
BY WORKING IN CO-OPERATION WITH OTHER SECURITIES
COMMISSIONS IN CANADA.

SANDY MACDONALD, *director*

> > > THE BCSC PROJECT OFFICE WAS SET UP IN SEPTEMBER 1999 TO MANAGE SPECIAL INTERNAL PROJECTS AND TO DEVELOP A CSA PROJECT OFFICE STRUCTURE. AS THE DEMAND FOR A NATIONAL APPROACH TO SECURITIES REGULATION HAS INCREASED, CANADA'S SECURITIES COMMISSIONS HAVE RECOGNIZED THE NEED TO MANAGE THE PROJECTS WE UNDERTAKE TOGETHER MORE EFFICIENTLY.

The CSA is the organization primarily responsible for developing a national approach to securities regulation in Canada.

As the number of shared projects has increased, so too has the need for an office to help CSA members with a variety of tasks. Those tasks include:

- developing an annual strategic plan for the CSA;
- managing the CSA committees formed for these shared projects; and
- managing the business relationships the CSA has with third parties.

CSA - CDS Inc. Relationship

Within the next two years, two national information technology projects will be developed and connected to the internet. The System for Electronic Data on Insiders is a database that will allow investors to obtain up-to-date information on trades by company insiders. The Registration Database will provide information on dealers and individuals registered to sell securities.

These projects are being developed for the CSA by CDS Inc., a subsidiary of the Canadian Depository for Securities Limited, an information technology service provider. The Project Office will coordinate and manage the business relationship between the CSA and the CDS.

We expect that, as CSA members continue to work co-operatively to build the Canadian Securities Regulatory System, the Project Office will take on more tasks and responsibilities on behalf of the members.



> > > WE ARE RESPONSIBLE FOR REVIEWING APPLICATIONS FOR REGISTRATION FROM MEMBERS OF THE SECURITIES INDUSTRY, INCLUDING INVESTMENT DEALERS AND THEIR SALESPeOPLE. WE ALSO MONITOR THOSE WHO ARE REGISTERED TO ENSURE THEY COMPLY WITH SECURITIES REGULATIONS. WE DO THIS BY REVIEWING FINANCIAL REPORTS, DOING ONSITE EXAMINATIONS AND CONDUCTING INVESTIGATIONS WITH THE ENFORCEMENT AND COMPLIANCE DIVISIONS.

The BCSC delegates authority to register dealers to the IDA, a self regulatory organization that regulates the conduct of its member dealers and their salespersons.

Division Highlights

During the past year, the number of people registered to trade or advise in securities rose nearly 8 per cent to 19,444.

In connection with the establishment of the CDNX, the former VSE's responsibility for registering and regulating its member brokers was transferred to the IDA effective December 31, 1999. The IDA now registers and regulates capital adequacy and business conduct for 100 firms and their 4,385 salespeople. CDNX retains responsibility for market regulation, including regulating the conduct of its members in trading CDNX-listed securities.

Each year, we examine some of the firms registered to trade and advise in securities to ensure they are following the rules. We increased the number of firms we examined from 33 in 1998-1999 to 40.

Much of our examination activity for the past several years has focused on mutual fund dealers, who are soon expected to come under the regulation of the newly formed MFDA. We are now devoting increased attention to examining registered portfolio managers.

Joint Audit

In January 2000, we and the US Securities and Exchange Commission (SEC) conducted joint audits of four firms that provide investment advice in BC and who are also registered in the US. The goal of the exercise was to apply examination practices the SEC has developed in its much larger and broader markets to firms in BC.

Procedures we adopted from the US federal regulator included reviewing adherence to fair practices guidelines, such as determining whether portfolio managers fairly allocate investment opportunities to large and small clients alike, checking the calculation of fees to investors and reviewing personal trading by the firms' officers and employees.

The investing public benefits when we apply these new procedures because we are better able to determine if the industry is complying with the *Securities Act* and other regulations.

Mutual Fund Dealer Audits

We conducted examinations of 17 mutual fund dealers to determine if they were complying with the *Securities Act*.

We found numerous deficiencies, including mutual fund dealers relying inappropriately on compliance officers based in Ontario rather than relying on their compliance officers based in BC.

We also found that many dealers failed to determine if investments were suitable for their clients. We also discovered that their salespeople failed to tell clients that investment risk increases when money is borrowed for the purpose of investing. We reviewed numerous dealer internet websites and found examples of false and misleading advertisements and exaggerated claims of fund performance. In minor cases, we simply followed up after sending a deficiency letter to ensure that the dealer had begun complying. In more serious cases, we referred dealer names to the Enforcement Division for action.

National Registration Database

We continue to work with our fellow regulators across Canada to develop a national registration database. The BCSC launched its own publicly accessible registration database in November 1998 and benefits to the investing public and industry have been evident. It allows any investor with access to our website (www.bsc.bc.ca) to check if a person is registered to trade or advise in securities. Those without internet access can get the same information by visiting the BCSC or by contacting us. We expect that a national database will also speed processing and checking of registrations for the industry.

INVESTORS HAVE
A RIGHT TO THE INFORMATION THEY NEED TO MAKE
INFORMED DECISIONS ABOUT WHERE THEY PUT THEIR HARD-
EARNED MONEY. OUR JOB IS TO MAKE SURE THEY CAN GET
TIMELY, ACCURATE AND COMPLETE INFORMATION FROM
THOSE WHO ARE OFFERING THEM THE INVESTMENT.

WAYNE REDWICK, *director*



> > > WE ARE RESPONSIBLE FOR MONITORING AND REVIEWING INVESTOR INFORMATION DOCUMENTS PREPARED BY PUBLIC COMPANIES. WE BELIEVE THAT MARKETS OPERATE MOST EFFICIENTLY WHEN ALL INVESTORS RECEIVE TIMELY, ACCURATE AND COMPLETE INFORMATION ABOUT THE COMPANY IN WHICH THEY HAVE INVESTED.

That information includes prospectuses and information companies are required to file after they go public. A prospectus must be filed and those selling the security must be registered before a company can sell its securities to the public, unless an exemption applies.

Other information we monitor includes trading by insiders, such as the company's directors and executives, financial statements and reports of material (major) changes to the company's business.

Prospectus Filings

Significant market activity this past year led to increases in all types of prospectus filings, a turnaround from the previous year when filings decreased. The total number of prospectuses filed jumped to 2,415 from 1,784 filed in 1998-1999.

Much of the increase is due to mutual fund filings, which rose from 1,353 in 1998-1999 to 1,873. Newly created mutual funds, designed to allow taxpayers to increase their RRSP exposure to foreign investments, account for a large portion of this increase.

Prospectuses filed by non-mutual fund issuers, increased from 431 in 1998-1999 to 542. Prospectuses filed where BC was the principal regulator increased from 201 to 243.

During this same time, we continued to maintain an efficient turnaround time for receipting prospectuses. Where BC was the principal regulator, we were able, on average, to send first comment letters within about 11 business days. We were also able to issue final receipts for 91 per cent of the prospectuses filed within 60 calendar days where BC was the principal regulator.

A Mutual Reliance Review System for prospectuses was tested from summer 1998 until it came into effect January 2000. The system is designed to reduce the time and expense involved in getting approval from more than one securities commission for offerings made to investors in multiple provinces and territories.

Continuous Disclosure

During the year, we continued to increase our efforts in monitoring information public companies provide to investors. Accurate, complete and timely information is a cornerstone of a fair and efficient market.

Most investors are active in the secondary market, purchasing securities on stock exchanges and electronic trading systems. What best serves these investors is a continuous flow of information about a company's financial condition, operations and business environment.

During the previous year, we established a continuous disclosure review team. Our goal is to improve the quality of information public companies provide to investors. This past year, 35 companies underwent a full continuous disclosure review, up from 29 the year before. We recently issued a report on the key issues that we identified during our reviews. This report is intended to assist companies in achieving and maintaining a high standard of disclosure. The report is available on our website at www.bcsc.bc.ca. We will increase the number of reviews we conduct during the coming years and will be working with our fellow securities regulators to develop a national approach to continuous disclosure review.

We want to continue to emphasize to companies the value of providing timely, accurate and complete information to investors as well as the consequences of not doing so. Requiring publication of corrected disclosure, issuing cease-trade orders and making referrals for formal investigations and enforcement actions are among the measures the BCSC takes with companies that fail to provide accurate, complete and timely information to investors.

Exchange Merger

The merger of the Vancouver and Alberta Stock Exchanges to form the CDNX created some additional duties and responsibilities for our division. With the stroke of a pen, 670 new reporting issuers in BC were created. Although these companies have been temporarily relieved from their new filing requirements, we now have a significant number of new public companies to monitor. We are also working with the ASC to provide a framework for regulatory oversight of CDNX's corporate finance and listings activities.

Insider Reporting

Every insider of a public company must file an insider report with the BCSC each month in which the insider purchases or sells shares in the company.

The number of trading reports filed by insiders rose to 57,657 in 1999-2000, a 14 per cent increase from the 50,669 insider reports filed in 1998-1999.

The CSA continues to work on developing a national electronic system for filing insider trading reports. This system will allow insiders to file trading reports electronically, improve information available to the market and improve the monitoring of insider trading reports. Implementation of this system is expected by the first half of 2001. During the past year, the BCSC created a new and improved searchable insider reporting database which is available on the BCSC website at www.bsc.bc.ca.

Financial Reporting

Public companies that fail to file financial statements or file inadequate financial statements, appear on the BCSC's Issuers in Default List. These companies may be subject to a cease-trade order until they complete the proper disclosure. The Default List is published in our *Weekly Summary* and is also available on our website.

In 1999-2000, the number of active public companies, those not subject to a cease-trade order, increased from 4,641 to 5,600. The majority of this increase is a result of the creation of CDNX. The number of cease-trade orders issued increased slightly, with 161 issued compared to the 152 issued in 1998-1999.

A LARGE
PART OF OUR JOB IS TO HELP LOCAL, NATIONAL AND
INTERNATIONAL ISSUERS ACCESS THE BC CAPITAL MARKET.
WHILE ENSURING WE PROTECT THE INTERESTS OF
INVESTORS. THAT MEANS SPENDING A LOT OF TIME TALKING
TO ISSUERS ABOUT THEIR PROPOSED TRANSACTIONS THAT
MAY NEED RELIEF FROM THE RULES.

MARGARET SHEEHY, *director*



> > > ONE OF THE BCSC'S GOALS IS TO ENSURE THAT THE SECURITIES MARKETS ARE FAIR AND EFFICIENT WHILE MAINTAINING INVESTOR PROTECTION. TO ACHIEVE THAT GOAL, WE EXERCISE AUTHORITY TO GRANT ISSUERS OF SECURITIES RELIEF OR EXEMPTIONS FROM CERTAIN LEGISLATIVE REQUIREMENTS. THESE INCLUDE REGISTRATION AND DISCLOSURE REQUIREMENTS TO SELL SECURITIES, CONTINUOUS DISCLOSURE REQUIREMENTS AND TAKE-OVER BID RULES.

Mutual Reliance Review System (MRRS)

Canada's securities regulators are co-operating to make securities markets more efficient. The goal of the MRRS is to make it more efficient for companies that issue securities to seek relief when they sell those securities in several provinces and territories at once. The goal of MRRS is to minimize duplication of effort with other securities regulators, reduce the time it takes for regulators to make a decision and ensure those decisions are more consistent.

During the past year, we considered 1,115 applications for various kinds of discretionary relief in connection with corporate and securities transactions, up 23 per cent from the year before. We believe this increase is a result of the strong market during the past year.

The number of applications referred to Commissioners for a decision rose significantly over the past two years, reflecting the increasing complexity of the securities market and the resulting novel and precedent-setting applications. During the year we introduced new procedures to streamline the decision process and allow more applications to be handled at the staff level.

Take-Over Bids and Shareholder Rights

Canada is experiencing a growing number of mergers and acquisitions as the trend toward consolidation continues worldwide. In response to this activity, we established a cross-divisional team to consider all matters relating to take-over bids, including hostile bids. This team was put to work in connection with an attempted take-over of Canadian Hotel Income Properties (CHIP) Real Estate Investment Trust by Royal Host Real Estate Investment Trust.

A joint hearing of the BC, Alberta and Ontario securities commissions considered a "tactical" poison pill adopted by CHIP after the bid was announced. The take-over bid team worked with the staff of the other two commissions and presented the joint position at the hearing held in Vancouver.

The three commission panels rejected Royal Host's argument that the regulators should immediately terminate the poison pill, which was adopted by CHIP without shareholder approval in an effort to force Royal Host to keep its bid open for longer than the minimum period legally required. However, the commissions refused to allow CHIP the full amount of additional time it was seeking in an effort to find an alternative take-over bid. Royal Host had argued that a "tactical" poison pill of this type should only

be permitted if the take-over bid is coercive, unfair or improper. The commissions determined that the timing of the poison pill and whether shareholder approval was obtained are only two of a number of factors that should be considered in deciding whether and when to terminate a poison pill.

Exempt Financings

Late last year, we developed internal systems to enable us to post information relating to exempt financings onto our public website. This provides for more timely public access to this information which is contained in a searchable database.

COMPLIANCE. WITH A BALANCED MIX OF EDUCATION AND DISCIPLINE, OUR GOAL IS TO ADDRESS BOTH THE FAILURE OF ISSUERS AND THEIR DIRECTORS AND OFFICERS TO MAKE REQUIRED DISCLOSURE OF THEIR ACTIVITIES AND THE FAILURE OF REGISTRANTS TO MEET THEIR OBLIGATIONS UNDER THE ACT. AN EFFECTIVE COMPLIANCE DIVISION WILL BE ONE THAT PROVIDES AN INCENTIVE FOR MARKET PARTICIPANTS TO PLAY BY THE RULES.

GERRY HALISCHUK, *deputy director*

> > > SECURITIES MARKETS HAVE SIGNIFICANTLY CHANGED DURING THE LAST FEW YEARS. BOTH IN THEIR SCALE AND NATURE. THE VAST MAJORITY OF INVESTORS NOW PARTICIPATE IN THE SECONDARY MARKET, REPRESENTED BY STOCK EXCHANGES AND OTHER ELECTRONIC TRADING SYSTEMS. AS SUCH, THEY RELY ON A CONTINUOUS FLOW OF TIMELY AND ACCURATE INFORMATION TO MAKE PRUDENT DECISIONS.

There has also been a significant growth in investment in securities that are not traded on an exchange or other public market, where limited disclosure requirements and restrictions on resale increase the risk that investors will put their money into investments unsuitable for them.

At the same time, the BCSC is relying more on self regulatory organizations such as the IDA, the CDNX and, soon, the MFDA, to directly regulate sectors of the securities industry.

New Division Created

One of the BCSC's responses to these challenges in 1999-2000, was the creation of the new Compliance Division. In addition to assembling staff with expertise in enforcement and litigation, we began working with the CDNX to identify compliance objectives and procedures to be overseen by BCSC staff.

We will be working with the Enforcement, Corporate Finance, Exemptions and Orders and Registration divisions to develop, structure and co-ordinate the implementation of the compliance function across the various divisions. The initial focus of Compliance division activities will be on continuous disclosure by reporting issuers, trading under exemptions and activities of self regulatory organizations.

Continuous Disclosure Review

The increasing importance of the secondary market requires us as regulators to step up our efforts to ensure companies comply with *Securities Act* requirements to provide investors with full, timely and accurate disclosure of information in news releases, financial statements and material change reports. With the anticipated adoption of the Integrated

Disclosure System, continuous disclosure review will become the central component of the BCSC's regulation of corporate disclosure. The increased emphasis on continuous disclosure review will result in the Compliance Division being asked to take appropriate action against companies and their directors and officers where continuous disclosure information is not full, timely and accurate. This will include taking action against insiders for failing to file insider reports.

New Business Monitored

With the recent growth in the sale of investments that do not trade on a public market, such as limited partnerships and seed capital raising ventures, we have seen more abuse and non-compliance with the conditions that apply to this type of business. As a result, we are developing a system for addressing complaints received from the Registration Division, the Exemptions and Orders Division and Enforcement's Case Assessment Team. We also plan to review offering memoranda and to take appropriate disciplinary action against those companies and their directors and officers who do not comply with the regulations.

To make oversight of self regulatory organizations more effective, we are working with the CSA to plan a regulatory audit of the IDA to be conducted in 2000. We will review how the IDA conducts its examination, investigation and disciplinary responsibilities for its member dealers and their salespeople. We will also monitor the CDNX's effectiveness in conducting market surveillance and taking enforcement action against its members for market violations.



>>> CORPORATE PLANNING AND MANAGEMENT SERVICES OPERATES FIVE DEPARTMENTS: FINANCE, ADMINISTRATION, HUMAN RESOURCES, INFORMATION AND RECORDS, AND COMPUTER AND MANAGEMENT SYSTEMS. OUR CLIENTS ARE LARGELY BCSC EMPLOYEES.

To better serve employees, we provide:

- modern management techniques and financial practices;
- progressive human resources policies and procedures; and
- state-of-the-art information systems.

Human Resources

We recently introduced performance management and incentive plans. The performance management plan encourages the BCSC's 202 employees to excel at their jobs, contributing to the BCSC's overall performance. The plan involves setting personal work goals and reviewing and assessing the work of employees. The major goal and benefit of the performance management and incentive plans is increased efficiency and better customer service.

www.bcsc.bc.ca

The website's new features let investors and the securities industry search for up-to-date information about BCSC rules, policies and decisions, insider trading, exempt distributions and persons licensed to sell securities in BC. These new databases are used daily by BCSC staff in regulating the securities industry. The industry and the public now have access to new information at the same time as BCSC staff.

Office Move

Due to space constraints in our current premises, we have leased new office premises and are scheduled to move on October 28, 2000. Our new premises are more suitable to the BCSC's needs. The cost of relocating is offset by the fact that our lease costs will be lower than renewing our current lease. Our new address will be 701 West Georgia Street in Vancouver.

Financial Summary

Total revenues for the fiscal year ended March 31, 1999, were \$27.3 million, compared with \$26.1 million in fiscal 1998-1999. This 5 per cent increase exceeded projections and was due in part to continued growth in registrations and mutual fund prospectus filings. Revenue from registration fees was \$6.1 million, up from \$5.6 million in fiscal 1998-1999, while revenue from prospectus filings and other corporate finance activity was \$11.9 million, up from \$11.1 million in the prior year.

Enforcement cost recoveries were \$1.2 million, compared to \$0.7 million in 1998-1999. Most of the 1999-2000 amount was from a cost recovery of \$1 million in the long running Bennett-Doman insider trading case.

Operating expenditures for the year were \$19.9 million, up from \$17 million in 1998-1999. Expenditures on salaries and benefits increased because we filled job vacancies outstanding from the prior year and implemented a new compensation plan to help attract and retain qualified staff. Salaries and benefits accounted for 67 per cent of total operating expenditures.

Expenses on information technology increased from \$0.9 million in 1998-1999 to \$1.2 million in 1999-2000. This is primarily due to a change in the BCSC's treatment of software costs. In previous years, these costs were capitalized but they are now expensed. Building occupancy increased to \$1.3 million from \$0.7 million in the prior year, reflecting a large rent increase for the BCSC's Vancouver premises at 865 Hornby Street.

The overall operating surplus for 1999-2000 was \$7.5 million, a decrease of \$1.7 million from fiscal 1998-1999.

The BCSC plans its financial affairs on a long-term break-even model in which all of its revenues are directed to regulatory programs. The BCSC has established a Fee Stabilization Reserve of \$12 million (\$10 million in the fiscal year 1998-1999) to ensure that an unexpected drop in revenue will not lead to an immediate fee increase to market participants. The BCSC will draw upon the reserve in future years if fee revenue falls below existing and anticipated commitments.

FINANCIAL STATEMENTS >>>



REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA

To the Commissioners of the British Columbia Securities Commission, and
To the Minister of Finance and Corporate Relations, Province of British Columbia:

I have audited the balance sheet of the British Columbia Securities Commission as at March 31, 2000 and the statements of operations, of surpluses, and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2000 and the results of its operations, its surpluses and its cash flows for the year then ended in accordance with generally accepted accounting principles.

WAYNE STRELIOFF, CA
Auditor General

Victoria, British Columbia
May 19, 2000

The financial statements of the British Columbia Securities Commission for the year ended March 31, 2000, have been prepared in accordance with generally accepted accounting principles.

Commission management is responsible for the preparation, integrity and objectivity of the financial statements and other financial information presented in the Commission's Annual Report. Systems of internal control are developed and maintained by management to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to provide reliable basis for preparation of financial statements.

The Commission has approved the financial statements. The Audit Committee of the Commission has reviewed the statements with the external auditors. The Auditor General of British Columbia, appointed the auditor of the Commission by the Lieutenant-Governor-in-Council, has carried out an independent audit of the financial statements in accordance with generally accepted auditing standards. The Auditor's Report outlines the scope of his independent audit and his opinion on the financial statements of the Commission.



DOUGLAS M. HYNDMAN

Chair and Chief Executive Officer



STEVE WILSON

Executive Director

>> BALANCE SHEET AS AT MARCH 31, 2000

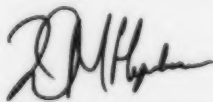
British Columbia Securities Commission

	2000	1999
ASSETS		
Current Assets:		
Cash and short-term investments (note 6)	\$ 14,347,917	\$ 8,681,829
Accounts receivable (note 7)	270,914	86,221
Prepaid expenses and deposits	241,894	200
	<u>14,860,725</u>	<u>8,768,250</u>
Investments held for designated purposes (note 8)	13,642,928	11,301,559
Capital assets (note 9)	2,159,261	1,990,411
	<u>\$ 30,662,914</u>	<u>\$ 22,060,220</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,400,615	\$ 1,109,159
Deferred revenue	4,726,270	4,207,086
Employee leave liability (note 10)	1,211,393	1,118,142
	<u>7,338,278</u>	<u>6,434,387</u>
Deferred revenue	1,593,466	1,420,852
SURPLUSES		
Contributed	1,415,018	1,415,018
General	6,673,224	1,488,404
Fee stabilization reserve (note 8(a))	12,000,000	10,000,000
Education reserve (note 8(b))	1,642,928	1,301,559
	<u>21,731,170</u>	<u>14,204,981</u>
	<u>\$ 30,662,914</u>	<u>\$ 22,060,220</u>

Commitment and contingent liability (note 16)

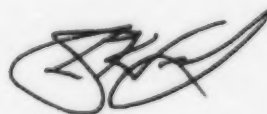
See accompanying notes to the financial statements

Approved on behalf of the Commission:



DOUGLAS M. HYNDMAN

Chair



JOHN K. GRAF

Member

>> **STATEMENT OF OPERATIONS**
FOR THE YEAR ENDED MARCH 31, 2000

British Columbia Securities Commission

	2000	1999
REVENUES		
Fees by division		
Corporate finance		
Prospectus, distribution, and A.I.F. fees	\$ 11,851,307	\$ 11,136,360
Statutory filings	3,640,967	3,402,490
Registration	6,147,358	5,590,506
Exemptions and orders	2,754,583	2,429,350
Information and records	179,240	196,236
Administrative penalties and designated settlements (note 11)	268,960	1,164,440
Enforcement cost recoveries (note 11)	1,234,586	706,847
Interest income	1,253,950	1,474,725
	<u>27,330,951</u>	<u>26,100,954</u>
EXPENSES		
Salaries and benefits	13,354,169	11,209,070
Building occupancy (note 16(a))	1,278,790	679,280
Information technology	1,132,312	893,100
Depreciation (note 2(b)(ii))	1,135,117	721,684
Professional services	855,378	972,927
Administration	801,608	765,942
External communications	475,902	580,826
Business travel	368,934	288,617
Staff training	277,709	245,905
Telecommunications	124,843	129,052
Securities fraud office (note 12)	-	476,509
	<u>19,804,762</u>	<u>16,962,912</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 7,526,189</u>	<u>\$ 9,138,042</u>

See accompanying notes to the financial statements

>> STATEMENT OF SURPLUSES
FOR THE YEAR ENDED MARCH 31, 2000

British Columbia Securities Commission

	CONTRIBUTED SURPLUS	GENERAL	FEE STABILIZATION RESERVE (NOTE 8(a))	EDUCATION RESERVE (NOTE 8(b))	TOTAL
Balance, March 31, 1998	\$ 1,415,018	\$ 15,514,802	\$ -	\$ 137,119	\$ 17,066,939
Excess of revenues over expenses of the year	-	9,138,042	-	-	9,138,042
Transfer of funds to the Province (note 13)	-	(12,000,000)	-	-	(12,000,000)
Appropriation during the year	-	(11,164,440)	10,000,000	1,164,440	-
Balance, March 31, 1999	1,415,018	1,488,404	10,000,000	1,301,559	14,204,981
Excess of revenues over expenses of the year	-	7,526,189	-	-	7,526,189
Appropriation during the year	-	(2,341,369)	2,000,000	341,369	-
Balance, March 31, 2000	<u>\$ 1,415,018</u>	<u>\$ 6,673,224</u>	<u>\$ 12,000,000</u>	<u>\$ 1,642,928</u>	<u>\$ 21,731,170</u>

See accompanying notes to the financial statements

>> STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2000

British Columbia Securities Commission

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	\$ 25,095,640	23,930,806
Cash receipts from penalties and settlements	268,960	1,164,440
Cash paid to employees	(12,726,783)	(10,988,751)
Cash paid to suppliers	(4,476,436)	(5,208,483)
Interest received	1,227,289	1,474,725
	<u>9,388,670</u>	<u>10,372,737</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(1,381,213)	(1,079,397)
	<u>(1,381,213)</u>	<u>(1,079,397)</u>
TRANSFER OF FUNDS TO THE PROVINCE	<u>-</u>	<u>(12,000,000)</u>
	-	(12,000,000)
Net increase (decrease) in cash and cash equivalents	8,007,457	(2,706,660)
Cash and cash equivalents, beginning of year	<u>19,983,388</u>	<u>22,690,048</u>
Cash and cash equivalents, end of year	<u>\$ 27,990,845</u>	<u>19,983,388</u>
Represented by:		
Cash and short-term investments	\$ 14,347,917	8,681,829
Investments held for designated purposes	<u>13,642,928</u>	<u>11,301,559</u>
	<u>\$ 27,990,845</u>	<u>19,983,388</u>

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

The British Columbia Securities Commission (the "Commission") was established as a Crown corporation effective April 1, 1995. As the agency responsible for administering and enforcing the Securities Act, the Commission functions as an independent regulatory agency and administrative tribunal responsible for regulating the trading of securities and exchange contracts in the Province of British Columbia (the "Province"). As an agent of the Province, the Commission is not liable to taxation, except insofar as the government is liable.

The Province transferred to the Commission net assets of \$1,415,018 on April 1, 1995 when the Commission was established as a Crown corporation. This amount represents a contribution to the Commission's surplus (see note 13).

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Short-term and designated investments

Pursuant to section 18(1) of the Securities Act, the Commission is obliged to place with the Minister of Finance and Corporate Relations, for investment purposes, any money received but not immediately required for operations. Short-term and designated investments consist of units, redeemable on a daily basis, in a Province of British Columbia Pooled Investment Portfolio that invests primarily in Canadian money market instruments maturing within 15 months. Short-term and designated investments are carried at the lower of cost, adjusted by income attributed to the Commission's units, and market value.

b) Capital assets

i) Capital assets are recorded at cost, and depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, as follows:

Office furniture and equipment – ten years (ii)

Information technology – three years

Leasehold improvements – five years (ii)

Capital assets transferred from the Province have been recorded at their net book value as at April 1, 1995, and are depreciated on the above basis over their remaining useful lives.

ii) During the year the Commission signed a lease agreement that will result in the relocation of the Commission's operations effective November 1, 2000. Depreciation relating to office furniture and leasehold improvements has been accelerated to reflect the shortened economic lives of these assets (note 16(a)).

c) Revenue

Fees for services provided in conjunction with prospectus and other statutory filings are recorded when cash is received.

Registration fees are deferred and recognized in income over the terms of the related registration which, depending upon the type of registration, is either 12 or 24 months.

Administrative penalties and designated settlements and enforcement cost recoveries are recorded as revenue on an accrual basis unless management determines there is no reasonable assurance as to ultimate collection, in which case they will be recognized as revenue when collected.

3. FINANCIAL INSTRUMENTS

- a)* The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, and employee leave liability approximate their fair value due to the short periods to maturity of these instruments.
- b)* The fair value of short-term investments, as disclosed in note 6, and the fair value of investments held for designated purposes, as disclosed in note 8, is market value.

4. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of accounts receivable, useful lives for depreciation of capital assets, and the valuation of employee leave liability. Actual results could differ from these estimates.

5. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the presentation adopted for the current year.

6. SHORT-TERM INVESTMENTS

Short-term investments is comprised of the Commission's investment in units of the Province's Pooled Canadian Money Market Fund ST2. As at March 31, 2000, the Commission held 9.01 units of this fund having a carrying value of \$24,188,515, of which \$10,545,587 is undesignated and \$13,642,928 is designated (note 8). The market value of short-term investments is \$24,197,232.

7. ACCOUNTS RECEIVABLE

Accounts receivable are comprised of:

	2000	1999
Registration revenue receivable	\$ 169,613	\$ -
Interest receivable	48,000	21,339
Enforcement settlements	-	2,500
Other receivables	53,301	62,382
	<u>\$ 270,914</u>	<u>\$ 86,221</u>

8. INVESTMENTS HELD FOR DESIGNATED PURPOSES

	FEE STABILIZATION	EDUCATION (b)			
	Appropriation (a)	Section 162	Appropriation	Total	Total
Balance, beginning of year	\$ 10,000,000	\$ 213,519	\$ 1,088,040	\$ 1,301,559	\$ 11,301,559
Additions during the year	2,000,000	12,000	256,960	268,960	2,268,960
Investment income allocation	-	10,201	62,208	72,409	72,409
Balance, end of year	<u>\$ 12,000,000</u>	<u>\$ 235,720</u>	<u>\$ 1,407,208</u>	<u>\$ 1,642,928</u>	<u>\$ 13,642,928</u>

Although no statutory requirement exists, management has allocated a portion of investment income to the Section 162 fund.

These investments are held with the Province as described in note 6 for the following designated purposes:

a) Fee stabilization

For the year ended March 31, 2000, the Commission appropriated \$2,000,000 (1999 - \$10,000,000) of retained earnings to a Fee Stabilization Reserve. The Commission intends to alter its fee structure so that revenue more closely matches budgeted expenses. Accordingly, the Fee Stabilization Reserve was established to ensure that an unexpected drop in revenue does not result in immediate fee increases for market participants. The Commission will draw upon the Fee Stabilization Reserve in future years when fee revenue falls below existing and anticipated commitments.

b) Education

For the year ended March 31, 2000, \$12,000 (1999 - \$76,400) was collected for administrative penalties under section 162 of the Securities Act and \$256,960 (1999 - \$1,088,040) was collected from the portion of negotiated settlements not allocated to cost recovery. These amounts, along with collections from previous years totaling \$1,301,559 and interest income for the year totaling \$72,409, are held in the Education Reserve. These amounts are to be expended only for the purpose of promoting knowledge of participants in the securities market of the legal, regulatory and ethical standards that govern the operation of the securities market in British Columbia.

9. CAPITAL ASSETS

	2000			1999
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Leasehold Improvements (note 2(b)(iii))	\$ 1,026,947	\$ 570,817	\$ 456,130	\$ 635,865
Office Furniture (note 2(b)(ii))	440,911	315,849	125,062	210,502
Office Equipment	362,229	90,740	271,489	240,432
Information Technology	3,843,153	2,536,573	1,306,580	903,612
	<u>\$ 5,673,240</u>	<u>\$ 3,513,979</u>	<u>\$ 2,159,261</u>	<u>\$ 1,990,411</u>

10. EMPLOYEE LEAVE LIABILITY

Employee leave liability represents amounts accrued for vacation and other leave entitlements.

11. ENFORCEMENT REVENUE

During the year, enforcement cost recoveries totaling \$1,234,586 (1999 - \$706,847) and administrative penalties and designated settlements totaling \$268,960 (1999 - \$1,164,440) were collected and recognized as revenue. However, due to the uncertainty of collection of these types of assessments, they are not recognized as revenue until received. Accordingly, a further \$2,445,931 (1999 - \$293,942) of administrative penalties, settlements and recoveries were assessed this fiscal year but not recognized as revenue. The Commission maintains records of all settlements and orders for collection purposes.

Enforcement revenue is therefore comprised of collections of both current and prior year orders and settlements, as follows:

	ADMINISTRATIVE PENALTIES AND DESIGNATED SETTLEMENTS		ENFORCEMENT COST RECOVERIES	
	2000	1999	2000	1999
Current year	\$ 241,340	\$ 1,097,040	\$ 1,171,510	\$ 686,222
Prior years	27,620	67,400	63,076	20,625
	<u>\$ 268,960</u>	<u>\$ 1,164,440</u>	<u>\$ 1,234,586</u>	<u>\$ 706,847</u>

12. SECURITIES FRAUD OFFICE

In fiscal 1995/1996, a three-year Securities Fraud Office pilot project was established as a joint project among the Commission, the Royal Canadian Mounted Police and the Ministry of Attorney General. During the year ended March 31, 1999, the Commission concluded that its resources would be more effectively directed toward administrative remedies and enforcement proceedings. Accordingly, funding was not continued after the pilot project ended.

13. TRANSFER OF FUNDS TO THE PROVINCE

In 1998 the Province enacted the Budget Measures Implementation Act, 1998. Under section 25 of that Act, the Minister of Finance and Corporate Relations directed the Commission to pay \$12 million to the Province for the year ended March 31, 1999.

14. RELATED PARTY TRANSACTIONS

The Commission is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, other than those noted separately, are considered to be in the normal course of operations, and are recorded at the exchange amount.

15. PENSION AND POST-RETIREMENT BENEFITS

- a) The Commission is an approved employer under the Pension (Public Service) Act. Eligible employees and the Commission contribute to the Public Service Pension Plan. An actuarial valuation of the assets and liabilities of the Public Service Pension Plan made at March 31, 1999 indicated a surplus. As a result of this, and previous evaluations, the Commission received rebates of employer contributions totaling \$543,582 during the fiscal year which have been accounted for as a reduction of salaries and benefits expense.
- b) Employees of the Commission are eligible for the same post-retirement benefits as other public sector employees. These include the payments for the medical services plan and extended health care premiums. No provision has been made in the accounts of the Commission for this liability.

16. COMMITMENT AND CONTINGENT LIABILITY

a) *Office relocation and lease*

The Commission has signed an agreement to lease office space for a period of eleven years commencing November, 2000 which provides for lease payments of approximately \$702,000 per annum for the first six years and \$858,000 per annum thereafter. The lease also requires the Commission to pay its proportionate share of building operating and maintenance costs.

b) *Mutual Fund Dealers Association of Canada*

The Mutual Fund Dealers Association of Canada (the "MFDA") is an organization formed by the mutual fund industry to act as a self regulatory organization for that industry. The Commission, together with the Ontario Securities Commission and the Alberta Securities Commission, has guaranteed severally, and not jointly, the obligations of the MFDA under certain credit facilities provided to the MFDA by a Canadian chartered bank. The maximum obligation of the three commissions under the guarantee is \$12 million. The Commission's portion of the guarantee of the liabilities outstanding from time to time is capped at 21%.

Pursuant to an agreement with the MFDA, the credit facility is limited to \$5.6 million until each participating Commission has approved the business plan of the MFDA and its fee structure. At present, no Commission has approved the business plan and fee structure of the MFDA. The credit facility balance as of March 31, 2000 is \$4,670,000 of which, in the event of default, the Commission would be liable for a maximum of \$980,700.

SPECIAL THANKS TO MEMBERS OF INDUSTRY

>>>

THREE SPECIAL ADVISORY COMMITTEES SHARE THE BURDEN OF SERVING THE FOREST ACTIVITIES. WE WOULD LIKE TO THANK SPECIAL MEMBERS OF THE BOARD OF TRADES COMMITTEE WHO WOULD LIKE TO BE RECOGNIZED FOR THEIR SUPPORT TO HELP US SERVE THE FOREST INDUSTRY.

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